

Message Text

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C O N F I D E N T I A L MOSCOW 11232

E. O. 11652: GDS

TAGS: ETRD, ENRG, EEWT, UR, JP

SUBJ: SAKHALIN OFF-SHORE OIL DEVELOPMENT PROJECT

USDOC FOR BEWT/USSR AND TDAD

1. DURING CONVERSATION AUGUST 7 WITH COMMATT, REPRESENTATIVE OF U.S. FIRM GEOSOURCE (HOUSTON) ADVISED THAT HIS COMPANY HAD CONCLUDED CONTRACT WITH JAPANESE FIRM SAKHALIN OIL DEVELOPMENT COMPANY (SODECO) TO PROVIDE DRILLING SHIP FOR SEISMIC RESEARCH ON SAKHALIN CONTINENTAL SHELF. ACCORDING TO GEOSOURCE REP, GULF OIL HAD DEMANDED "RIDICULOUSLY HIGH" PRICE FOR USE OF ITS SEISMIC SHIP "HOLLIS HEDBERG." GEOSOURCE REP SAID IT IS GENERALLY BELIEVED IN OIL INDUSTRY THAT GULF DELIBERATELY DEMANDED THIS PRICE IN ORDER TO AVOID WINNING CONTRACT.

2. SOVIETS HAVE NOT YET APPROVED GEOSOURCE-SODECO CONTRACT, ALTHOUGH GEOSOURCE HAS MADE MAJOR CONCESSIONS IN ORDER TO OVERCOME SOVIET SECURITY CONCERNS. ACCORDING TO GEOSOURCE REP, GEOSOURCE-SODECO CONTRACT CALLS FOR "BARE-BOAT" CHARTER WITH ONLY THREE GEOSOURCE TECHNICIANS ON BOARD TO ASSIST IN OPERATION OF EQUIPMENT. CAPTAIN AND CREW OF SHIP WILL BE TRAINED BY GEOSOURCE IN HOUSTON AND WILL BE ALLOWED TO OPERATE VESSEL WITHOUT SUPERVISION OF GEOSOURCE REPS. GEOSOURCE REP SAID TERMS OF THIS CONTRACT HAD BEEN APPROVED BY FEDEARL MARITIME COMMISSION. CONTRACT HAS NOW BEEN SUBMITTED TO SOVIETS BY
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SODECO FOR SOVIET APPROVAL. GEOSOURCE REP WAS INFORMED BY

GRACHEV OF MINISTRY OF GEOLOGY AUGUST 7 THAT MINISTRIES OF GEOLOGY AND OIL INDUSTRY ARE MAKING MAJOR EFFORT TO OBTAIN AGREEMENT OF SOVIET MINISTRY OF DEFENSE AND SECURITY AGENCIES TO CONTRACT. MINISTRY OF GEOLOGY STILL HARBORS SOME HOPES THAT INITIAL EXPLORATION SURVEYS CAN BE CONDUCTED DURING 1975, BUT SODECO REP BELIEVES THIS WILL BE IMPOSSIBLE DUE TO ONSET OF BAD WEATHER, WHICH WOULD NORMALLY BE EXPECTED ON/ABOUT OCTOBER 1.

3. ON GENERAL SUBJECT OF SODECO-SOVIET AGREEMENT ON SAKHALIN PROJECT, GEOSOURCE REP SAID THAT THIS CONTRACT IS REGARDED IN OIL INDUSTRY AS "WORST EVER CONCLUDED" FOR AN OIL EXPLORATION PROJECT. UNDER THIS CONTRACT, SODECO IS TO BE RECOMPENSED FOR ITS COSTS FROM ANY OIL AND/OR GAS DISCOVERED DURING THE FIRST FIVE YEAR OF OPERATIONS. HOWEVER, JAPANESE SIDE HAS NO RIGHT TO DETERMINE WHERE WELLS WILL BE DRILLED, AND GEOSOURCE REP SAID HE BELIEVED SOVIETS WOULD DRILL SERIES OF DRY HOLES ON BASIS OF SEISMIC STUDIES DURING FIRST FIVE YEARS AND ONLY BEGIN SERIOUS DRILLING AFTER FIVE-YEAR PERIOD HAS PASSED. IF THIS HAPPENS, SODECO WILL HAVE NOTHING TO SHOW FOR ITS MONEY.
STOESSEL

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